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SAN DIEGO AFFORDABLE HOUSING FUND

FY 2007 ANNUAL PLAN

INTRODUCTION

The City of San Diego's Affordable Housing Fund is a permanent, annually renewable source of funds to help meet the housing assistance needs of the city's very low-, low-, and median-income households. The City Council expressed this intent in Municipal Code Sections 98.0501-98.0518. In general, the Affordable Housing Fund's purposes are to:

- 1) Meet a portion of the need for housing affordable to households with very low, low, and median incomes;
- 2) Leverage every one dollar of City funds with two dollars of non-City subsidy capital funds;
- 3) Support the Balanced Communities Policy by fostering a mix of family incomes in projects assisted by the Fund and dispersing affordable housing projects throughout the City;
- 4) Preserve and maintain renter and ownership affordable housing; and
- 5) Encourage private sector activities that advance these goals.

The Annual Plan implements the City Council's intent by adopting an overall strategy for use of Affordable Housing Fund moneys. Development of this Annual Plan is guided by the Housing Commission's annual Budget process, FY2006-2008 Business Plan, and the Consolidated Plan, which is required by the federal Department of Housing and Urban Development.

The Affordable Housing Fund contains two main revenue accounts: the Housing Trust Fund account and the Inclusionary Housing account. Information for both accounts, including revenue forecasts and fund allocation and production, is provided in this 2007 Plan.

Allocation of Affordable Housing Fund resources takes into consideration the policy parameters set by the Affordable Housing Fund Ordinance, the availability and requirements of other funding sources, and Housing Commission goals and objectives set forth in the Housing Commission's FY2007 Budget and FY2006-2008 Business Plan.

The FY2007 Annual Plan includes an estimate of housing needs, the suggested allocation of Housing Trust Fund and Inclusionary Housing Fund forecasted revenues for FY2007, an Ordinance Compliance Analysis for the Housing Trust Fund, and a description of model programs and beneficiaries.

ESTIMATES OF CURRENT HOUSING NEEDS

The Comprehensive Housing Affordability Strategy (CHAS) developed by the Census for the U.S. Department of Housing and Urban Development provides detailed information on housing needs by income level for different types of households. Detailed CHAS data for the City of San Diego based on the 2000 Census follows:

Housing Needs of Low and Moderate Income Households in the City of San Diego

Household by Income and Housing Problem	Renters				Owners		Total Hhds
	Elderly	Small Families	Large Families	Total Renters	Elderly	Total Owners	
Ext. Low Income (0-30% MFI)	17%	31%	14%	19%	44%	5%	12%
% with any housing problem	68%	87%	95%	82%	69%	74%	80%
% with cost burden > 50% only	46%	44%	6%	48%	49%	54%	49%
% with cost burden >30% to 50% only	16%	6%	2%	6%	19%	12%	8%
Low Income (31-50% MFI)	15%	35%	18%	16%	48%	6%	11%
% with any housing problem	72%	81%	91%	85%	50%	68%	80%
% with cost burden > 50% only	35%	19%	5%	28%	30%	38%	30%
% with cost burden >30% to 50% only	32%	31%	8%	29%	20%	17%	26%
Moderate Income (51-80% MFI)	9%	34%	14%	21%	39%	12%	17%
% with any housing problem	60%	61%	80%	63%	31%	57%	61%
% with cost burden > 50% only	17%	5%	1%	8%	15%	23%	13%
% with cost burden >30% to 50% only	38%	30%	10%	33%	30%	23%	30%
Total Households	10%	35%	12%	50%	13%	50%	100%
% with any housing problem	55%	51%	80%	52%	26%	34%	43%

Abbreviation: Hhds = Households.

Source: Comprehensive Housing Affordability Strategy (CHAS), 2003.

Housing problems include: 1) units with physical defects (lacking complete kitchen or bathroom); 2) overcrowded conditions (housing units with more than one person per room); 3) housing cost burden, including utilities, exceeding 30 percent of gross income; or 4) severe housing cost burden, including utilities, exceeding 50 percent of gross income. The types of problems vary according to household income, type, and tenure. The data shows that:

- In general, renter households had a higher level of housing problems compared to owner households (52 percent vs. 34 percent).
- Large family households had the highest level of housing problems regardless of income level. Almost all of the extremely low-income (95 percent) and low-income (91 percent) large family renters experienced housing problems. Cost burden was a major housing problem for large families.
- A high percentage of elderly households also experienced housing problems. Approximately 68 percent of the extremely low-income and 72 percent of the low-

income elderly renters experienced a housing problem. Housing issues of elderly households relate more to cost burden issues rather than to overcrowding.

- Extremely low-income households experienced a disproportionate housing need. In this income group, 80 percent of all households had housing problems. Approximately 48 percent of extremely low-income renter households and 54 percent of extremely low-income owner households paid more than 50 percent of their income for housing.
- Approximately 80 percent of all low-income households (31-50 percent of AMI) experienced one or more housing problems. Again, renters experienced a greater need compared to owners, as 85 percent of low-income renters experienced some type of housing problem, compared to 68 percent of low-income owner households in this income group.
- Comprising only 17 percent of the City population, 61 percent of all moderate-income households (51-80 percent AMI) experienced housing problems. Again, renters experienced a greater need compared to owners, as 63 percent of renters experienced some type of housing problem, compared to 57 percent of owner households in this income group. Specifically, moderate-income elderly renter households experienced more housing problems (60 percent) compared to moderate-income elderly owner households (31 percent) in general.

SAN DIEGO HOUSING TRUST FUND ACCOUNT

Purpose and Use

The San Diego Housing Trust Fund was created by the San Diego City Council on April 16, 1990 pursuant to Ordinance O-17454.

Funds from the Housing Trust Fund account may be used in any manner, through loans, grants, or indirect assistance for the production and maintenance of assisted units and related facilities. To comply with the Ordinance, Housing Trust Fund monies shall be allocated:

- At least 10 percent to Transitional Housing;
- At least 60 percent to very low-income households (defined as households with incomes at or below 50 percent of area median income);
- No more than 20 percent to housing for low-income households (defined as households with incomes between 50 percent and 80 percent of area median income) and
- No more than 10 percent to median income first-time homebuyers.

Revenue Forecast

Approximately \$6.4 million is expected to be available in FY2007, consisting of \$3.2 million in new revenue (Housing Impact Fees and loan repayments) and \$3.2 million in estimated carryover.

Fund Allocation and Production

Funding recommendations are made in accordance with established Housing Commission policies and require Housing Commission or Housing Authority approval of specific projects and activities. Some discretionary transfer of funds between eligible activities is permitted, but all funding recommendations must be consistent with the Annual Plan.

The proposed allocation of Housing Trust Fund funds for FY2007 is as follows:

PROGRAM	BUDGET	% OF BUDGET	PRODUCTION
Rental Housing Development New Rental Housing Existing Rental Housing	\$2,495,850	38%	50 units
Special Purpose Rental Housing	\$788,035	12%	20 units
Homeownership Shared Equity Program Downpayment/Closing Cost Assistance Pgm Acquisition with Rehabilitation	\$100,000	2%	10 downpayment grants
Rehabilitation Owner-occupied Rehabilitation Nonprofit Owner-Occupied Mobile Home Repair Grant Accessibility Grants for Tenants with Disabilities	\$1,071,256	17%	150 units
Transitional Housing Operations	\$1,100,000	17%	400 beds
Permanent Supportive Housing Operations	\$400,000	6%	175 units
Nonprofit Capacity Building Predevelopment Financial Assistance Emergency Loan Fund Program Nonprofit Technical Assistance Nonprofit Support	\$80,000	1%	4 projects
Reserves & Targets of Opportunity	\$40,000	1%	
Administration	\$350,382	5%	
Legal	\$60,000	1%	
TOTAL	\$6,485,523	100%	

Since the inception of the Housing Trust Fund in 1991, over \$61 million has been invested in San Diego communities, leading to the production of almost 7,300 affordable units and funding an average of approximately 480 transitional housing beds per year.

HTF Ordinance Compliance Tests

Municipal Code Section 98.0504 sets forth the allocation boundaries for the Housing Trust Fund. To comply with the Ordinance, Housing Program Funds must be allocated:

- At least 10 percent to Transitional Housing;
- At least 60 percent to very low-income households (defined as households with incomes at or below 50 percent of area median income);
- No more than 20 percent to housing for low-income households (defined as households with incomes between 50 percent and 80 percent of area median income) and
- No more than 10 percent to median income first-time homebuyers.

Housing Program Funds are defined as those funds allocated to direct investment in housing. Administration, legal expenses, nonprofit capacity building and uncommitted reserves are excluded from the calculation.

For the FY07 Strategy, the calculation would be as follows:

Total Funds		\$6,485,523
Less Administration, Legal		(410,382)
Less Capacity Building		(80,000)
Less Uncommitted Reserves/Targets		(40,000)
Equals Housing Program Funds (HPF)		\$5,955,141
<u>Program</u>	<u>Allocation</u>	<u>Percent of HPF</u>
Transitional Housing	\$1,100,000	18%
Very Low-Income (Excluding Transitional Housing)		
Rental Housing Development	2,495,850	
Special Purpose Rental	788,035	
Permanent Supportive Hsg	400,000	
Rehabilitation	<u>1,071,256</u>	
	\$4,755,141	80%
Low-Income (estimated)		
Rehabilitation	-0-	
Homebuyers	\$100,000	2%
Median-Income Homebuyers	-0-	

The FY07 HTF proposed allocation meets the ordinance compliance requirements.

INCLUSIONARY HOUSING FUND ACCOUNT

On June 3, 2003, the San Diego City Council adopted an Inclusionary Housing Program, pursuant to Ordinance O-19189.

Purpose and Use

The purpose of the Inclusionary Affordable Housing Fund is to ensure that housing opportunities are available for households of all income levels while encouraging diverse and balanced neighborhoods.

San Diego Municipal Code Section 98.0505 governs the priority of expenditure of Inclusionary Housing funds. Inclusionary regulations require that rental housing is affordable to households earning $\leq 65\%$ AMI and for sale housing is affordable to households ≤ 100 percent AMI. As allowed by Section 98.0505, the priority for expenditure of FY2007 Inclusionary Housing funds shall be as follows:

1. Construction of new affordable rental housing, including Special Purpose Housing. Rental units shall be affordable at/below 65% of AMI for a minimum of 55 years.
2. Acquisition and rehabilitation of affordable rental housing.
3. Preservation of affordable rental housing
4. Land Banking: Housing Commission purchase of land or improved property for future development
5. Homeownership Opportunities – either new construction of affordable for-sale housing or financing programs to encourage and increase homeownership opportunities for low or moderate-income households (at/below 100% AMI)

Revenue Forecast

Approximately \$6.1 million is expected to be collected by the City of San Diego during FY2007. The City of San Diego collects the Inclusionary Housing In-Lieu fees and periodically sends them to the Housing Commission. After receipt by the Housing Commission, funds are immediately available for investment into affordable housing activities as outlined in this Annual Plan and Model Programs. Additionally, approximately \$6.2 million in FY2006 funds could be carried forward for investment in FY2007.

Fund Allocation and Production

Program descriptions and application methods are described in the Model Programs section. Funding recommendations are made in accordance with established Housing Commission policies and require Housing Commission or Housing Authority approval of specific projects and activities. Some discretionary transfer of funds between eligible activities is permitted, but all funding recommendations must be consistent with the Annual Plan.

The proposed distribution of Inclusionary Housing funds for FY2007 is as follows:

PROGRAM	BUDGET	% OF BUDGET	PRODUCTION
Rental Housing Development New Rental Housing Existing Rental Housing Land Banking Balanced Communities	\$9,241,297	82%	175 units
Special Purpose Rental Housing Development – new construction	\$1,000,000		25 units
Homeownership Shared Appreciation Program/ Condo Conversion Assistance	\$890,000	7%	60 households
Administration	\$957,994	8%	
Legal	\$100,000	1%	
Reserves	\$250,000	2%	
TOTAL	\$12,439,291	100%	

In FY2007, 8 percent of the Inclusionary Housing funds will be used for program administration to pay for costs associated with investing the Inclusionary funds through loans or grants including project solicitation, underwriting, project management, and loan servicing. An additional 3 percent will be used for legal expenses and reserves.

Geographic Distribution

San Diego Municipal Code section 98.0505 generally provides that priority for spending Inclusionary Housing funds shall be given to the Community Planning Area from which the funds were collected. The Housing Commission maintains records regarding the amount of money collected from each Community Planning Area and is responsible for reinvesting the funds collected. Sufficient funds must be collected and investment opportunities must exist in specific geographic areas for a precise match between the area of collection and the use of funds to occur in this manner.

Recognizing the significant need for affordable housing, the rising costs of construction, and the desire to provide housing opportunities as soon as possible, the Housing Commission will invest Inclusionary Housing funds as follows:

Rental Housing Production

1. Applications for funding will be accepted via the Housing Commission's Notice of Funding Availability for the Construction, Acquisition, and Operation of Affordable Rental Housing. Funding awards shall be in accordance with Housing Commission policies and program rules.
2. Funds shall be invested in the Community Planning Area (CPA) of origin, or within 3 miles of CPA origin (and within the same Council District). For projects that are more than 3 miles from the CPA of origin or outside the Council District of origin, fund investment shall be approved by the City Council, acting as the Housing Authority.
3. Should there be insufficient funds on deposit in a particular CPA to fund a rental

housing development under the Balanced Communities Program, funds shall be taken from the closest CPA that has less than \$100,000 available for investment. These actions shall be handled ministerially by Housing Commission staff.

Homeownership

1. Purchasers apply through participating Lenders subject to the loan policies of the Housing Commission. Funding shall be in accordance with Housing Commission policies and program rules.
2. Funds shall be invested in the Community Planning Area (CPA) of origin, or within 3 miles of CPA origin (and within the same Council District), in accordance with Housing Commission policies and program rules. Should there be insufficient funds on deposit at the Housing Commission to fund a homeownership opportunity in a particular CPA, funds for homeownership shall be taken from the closest CPA that has less than \$100,000 available for investment. These actions shall be handled ministerially by Housing Commission staff.

From July 3, 2003 through April 19, 2006, the Housing Commission has received \$9,099,258: 11 percent of these funds (\$1,000,918) has been allocated for administration, legal expenses and reserves; \$1,741,000 has been committed to four rental housing developments; \$890,000 is reserved for condominium homeownership opportunities; and \$5,467,340 remains available for investment by Community Planning Area is shown in the following table. The community areas with the largest collections, and thus the greatest potential for investment, are Carmel Valley, Centre City, Mission Valley, University City, and Uptown.

Community Plan Area	Balance
Barrio Logan	\$22,654
Carmel Mountain Ranch	\$1,927
Carmel Valley	\$958,529
Centre City	\$1,316,383
City Heights	\$36,954
Clairemont Mesa	\$45,225
College	\$41,801
Eastern Area	\$13,880
Golden Hill	\$84,023
Kensington-Talmadge	\$2,718
La Jolla	\$233,745
Linda Vista	\$86,086
Mid-City	\$297,708
Midway/Pacific Highway	\$161,204
Mira Mesa	\$196,743
Mission Beach	\$82,983
Mission Valley	\$1,314,181
Normal Heights	\$36,873
North Park	\$57,212
Ocean Beach	\$12,342
Old Town	\$2,159
Otay Mesa	\$32,198
Otay Mesa/Nestor	\$26,256
Pacific Beach	\$136,147
Peninsula	\$36,789

Rancho Penasquitos	\$1,816
San Ysidro	\$3,670
Skyline/Paradise Hills	\$23,186
Southeastern San Diego	\$40,440
University City	\$479,125
Uptown	\$572,383
TOTAL	\$6,357,340

MODEL PROGRAMS OVERVIEW

Funding is allocated on an annual basis among the various activities authorized by Chapter 9, Article 8, Division 5 of the San Diego Municipal Code.

To assure that the City serves its residents in the best possible manner, the Housing Commission continues to solicit ideas for improving the Model Programs to better respond to community needs for affordable housing and quality neighborhoods. Model Programs change from time to time; they are not intended to preclude investment in an opportunity that is not specifically described in the Model Programs Section.

The following is a general description of the possible investment activities planned for FY2007. All but Rental Assistance are proposed for funding in this plan. These activities are described more fully in Attachment A.

Rental Housing Development

Advantageous financing to developers of units with below-market rents and land banking activities by the Housing Commission. Program includes deferred loans, below market interest rates, and matching funds for State, Federal, and private financing. Housing Commission Policy PO600.301 contains additional information regarding the Housing Commission's financial participation in housing development, acquisition with rehabilitation, and large rehabilitation projects.

Special Purpose Rental Housing

Advantageous financing to developers of transitional housing or affordable units with related services that serve persons qualifying under federally or locally determined Special Needs or Special Purpose categories. Program includes deferred loans, below market interest rates, revocable grants, land banking, matching funds for State, Federal and private financing. Housing Commission Policy PO600.301 contains additional information regarding the Housing Commission's financial participation in housing development, acquisition with rehabilitation, and large rehabilitation projects.

First-Time Homebuyers

Junior loan/grant and new construction programs targeted toward first-time homebuyers with the ultimate goal of neighborhood stabilization and revitalization.

Housing Rehabilitation

Rehabilitation programs that provide below-market interest rate amortized or deferred loans for the rehabilitation of deteriorated or functionally obsolete units. Units must be owner-occupied, single family to four-plex or mobile home.

Transitional Housing and Permanent Supportive Housing Operations

Grants and loans to nonprofit agencies for operation of transitional housing or permanent supportive housing facilities, acquisition or leasing of facilities, or improvements to facilities. No more than 25 percent of Program funds may be used for administration and supportive services. At least 10 percent of Housing Trust Fund program funds must be dedicated to Transitional Housing activities (operations and development).

Nonprofit Capacity Building

Programs for nonprofit developers include project-based financial assistance and technical assistance.

Rental Assistance

A program designed to assist low-income residents achieve self-sufficiency by providing limited amounts of rental assistance.

Reserves and Targets of Opportunity

A reserve fund that provides flexibility to transfer resources among eligible activities and to take advantage of low-income housing opportunities that present themselves during the course of the year. The reserve fund also provides for a contingency reserve and allows for reimbursement of housing impact fees when building permits expire without the commencement of work.

Administration

Funds to provide reasonable compensation to the City of San Diego and the Housing Commission for services related to the administration of the Affordable Housing Fund and associated housing programs.

Legal

Expenses to obtain legal services and prepare loan and grant agreements and related documents.